

# **Ringgold County Hospital**

Accountants' Report and Financial Statements

June 30, 2004

# Ringgold County Hospital

## June 30, 2004

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## Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees  
Ringgold County Hospital  
Mount Ayr, Iowa

We have audited the accompanying balance sheet of Ringgold County Hospital as of June 30, 2004, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Chapter 11 of the Code of Iowa. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ringgold County Hospital as of June 30, 2004, and its changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in *Note 13*, in 2004 the Hospital changed its method of financial statement presentation and disclosure by retroactively restating prior years' financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2004, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Hospital's basic financial statements. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BKD, LLP

September 2, 2004

Solutions  
for  
Success

# **Ringgold County Hospital**

## **Management's Discussion and Analysis**

### **Year Ended June 30, 2004**

#### ***Introduction***

This management's discussion and analysis of the financial performance of Ringgold County Hospital (the "Hospital") provides an overview of the Hospital's financial activities for the year ended June 30, 2004. It should be read in conjunction with the accompanying financial statements of the Hospital.

This is the first year for which financial statements of the Hospital are being prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement of Accounting Standards No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. This statement brings significant changes in the accounting for and presentation of the results of operations. As a result, the Hospital, as authorized by GASB Statement No. 34, has elected not to present comparative data from the preceding fiscal year. Full comparative data will be included in Management's Discussion and Analysis in future years.

#### ***Financial Highlights***

- Cash and investments decreased in 2004 by \$475,404, or 27%.
- The Hospital's net assets decreased in 2004 by \$253,494, or 5%.
- The Hospital reported an operating loss in 2004 of \$(920,607). The operating loss in 2004 increased by \$582,651, or 172%, over the operating loss reported in 2003.

#### ***Using This Annual Report***

The Hospital's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net assets; and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

#### ***The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets***

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. The Hospital's total net assets—the difference between assets and liabilities—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net assets are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

### ***The Statement of Cash Flows***

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

### ***The Hospital's Net Assets***

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net assets decreased by \$253,494 (5%) in 2004 over 2003 as shown in Table 1.

**Table 1: Assets, Liabilities and Net Assets**

<b>Assets</b>	
Patient accounts receivable, net	\$ 1,426,424
Other current assets	1,243,860
Capital assets, net	3,257,522
Other noncurrent assets	<u>910,311</u>
Total assets	<u>\$ 6,838,117</u>
<b>Liabilities</b>	
Long-term debt	\$ 893,058
Other current and noncurrent liabilities	<u>1,453,270</u>
Total liabilities	<u>2,346,328</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	2,364,464
Unrestricted	<u>2,127,325</u>
Total net assets	<u>4,491,789</u>
Total liabilities and net assets	<u>\$ 6,838,117</u>

A significant element of the Hospital's assets is patient accounts receivable. Although net patient service revenues decreased in 2004 by \$44,339 (.5%) as compared to 2003, net patient accounts receivable increased by \$102,672 (7%), or 4.6 days of revenue, at June 30, 2004, versus June 30, 2003. The increase results primarily from delays in filing claims with third-party payers caused by implementation of new billing software and implementation of HIPAA Transaction Sets during the year. In addition, the state

Medicaid program and certain commercial insurance providers have become slower in making payments on behalf of covered individuals in 2004. This trend reflects the tight budgetary constraints the state is experiencing and attempts by commercial insurance providers to conserve cash and control costs by challenging claims more strenuously.

### ***Operating Results and Changes in the Hospital's Net Assets***

In 2004, the Hospital's net assets decreased by \$253,494 or 5%, as shown in Table 2. This decrease is made up of several different components and represents a decline of \$556,032 compared with the increase in net assets for 2003 of \$302,538.

**Table 2: Operating Results and Changes in Net Assets**

<b>Operating Revenues</b>	
Net patient service revenue	\$ 8,169,143
Other operating revenues	<u>99,927</u>
Total operating revenues	<u>8,269,070</u>
<b>Operating Expenses</b>	
Nursing services	1,234,935
Other professional services	5,162,852
General services	643,526
Administrative and fiscal services	1,824,499
Depreciation	<u>323,865</u>
Total operating expenses	<u>9,189,677</u>
<b>Operating Loss</b>	<u>(920,607)</u>
<b>Nonoperating Revenues (Expenses)</b>	
County taxes	662,835
Investment income	21,550
Interest expense	(49,107)
Noncapital gifts	3,849
Rental income	<u>27,986</u>
Total nonoperating revenues (expenses)	<u>667,113</u>
<b>Decrease in Net Assets</b>	<u><u>\$ (253,494)</u></u>

### ***Operating Losses***

The first component of the overall change in the Hospital's net assets is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In each of the past two years, the Hospital has reported an operating loss. This is consistent with the Hospital's recent operating history as the Hospital was formed and is operated primarily to serve residents of Ringgold County and the surrounding area. The Hospital levies county taxes to provide sufficient resources to enable the facility to serve lower income and other residents.

The operating loss for 2004 increased by \$582,651, or 172%, as compared to 2003. The primary components of the increased operating loss are:

- A decrease in net patient service revenue of \$44,339, or .5%.
- An increase in salaries and wages for the Hospital's employees of \$317,841, or 8%.

Net patient service revenue decreased, in part, because of a decline in patient days of 450 (17%) from 2003 to 2004. This decline resulted from a combination of factors, including a declining population in the Hospital's service area. The hospital industry also continues to see a shift in services that were historically inpatient services to the outpatient setting. Another factor is commercial insurance carriers continue to expect larger and larger discounts on services provided under Preferred Provider contracts. However, the most significant factor in the decreasing net patient service revenue of the Hospital is the shortfalls caused by inadequate payments from the Medicare system for both outpatient and swing bed services.

Employee salaries and wages and benefits increased in 2004 in connection with the Hospital's retention and recruitment efforts. These efforts result primarily from the shortage of nurses and other health care professionals in the United States.

A significant item of expense during 2004, with long-term benefits, was the implementation of a Hospital Information System (HIS). As legislative efforts continue to increase the demand for more timely data to be made available electronically to the public and various oversight agencies, a strategic plan was developed by the Hospital to invest in technologies that would accommodate these requirements. The conversion from a paper-based system to an electronic-based system began in May 2003 with the conversion of the financial systems to a new structure. This conversion continued into Fiscal Year 2004 with the implementation of Order Entry and Results Reporting in October 2003 and implementation of Transaction Sets for the HIPAA 837 and HIPAA 835. Total implementation costs, including software, hardware and training were approximately \$225,000.

### ***Nonoperating Revenues and Expenses***

Nonoperating revenues and expenses consist primarily of county taxes and investment income and interest expense, all of which remained relatively constant in 2004 as compared to 2003. Despite an adequate amount of funds invested in Certificates of Deposit, the Hospital's investment return is insignificant due to low interest rates. Also, the investment options of the Hospital are severely limited due to the governmental status of the Hospital which prevents the Hospital from investing in alternative arrangements with more favorable returns.

### ***The Hospital's Cash Flows***

Changes in the Hospital's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses, discussed earlier.

### ***Capital Asset and Debt Administration***

#### ***Capital Assets***

At the end of 2004, the Hospital had \$3,257,522 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2004, the Hospital purchased new equipment costing \$355,320. During 2003, \$107,529 was spent to acquire new equipment.

### ***Debt***

At June 30, 2004, the Hospital had \$893,058 in long-term debt outstanding. The Hospital issued no new debt in 2004.

### ***Other Economic Factors***

The single largest economic factor affecting the Hospital is the aging, declining population of its service area. As the remaining population ages and median income decreases, the Hospital treats a larger and larger percentage of Medicare and Medicaid patients, thus increasing the Hospital's reliance on those programs' payment systems for a majority of its reimbursement.

### ***Contacting the Hospital's Financial Management***

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Business Administration by telephoning 641 464-3226.



# Ringgold County Hospital

## Balance Sheet

June 30, 2004

### Assets

#### Current Assets

Cash	\$ 387,178
Patient accounts receivable, net of allowance of \$423,429	1,426,424
County taxes receivable	638,081
Estimated amounts due from third-party payers	42,057
Accrued interest receivable	1,509
Supplies	138,099
Prepaid expenses	<u>36,936</u>
Total current assets	<u>2,670,284</u>

#### Noncurrent Investments

Internally designated	<u>900,000</u>
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#### Capital Assets, Net

3,257,522

#### Other Assets

Assets managed by the South Central Iowa Community Foundation	<u>10,311</u>
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Total assets \$ 6,838,117

## **Liabilities and Net Assets**

### **Current Liabilities**

Current maturities of long-term debt	\$ 142,600
Accounts payable	165,036
Accrued salaries and payroll taxes	244,142
Estimated self-insurance costs	40,000
Accrued compensated absences	374,592
Deferred revenue for county taxes	<u>629,500</u>

Total current liabilities	1,595,870
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<b>Long-term Debt</b>	<u>750,458</u>
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Total liabilities	<u>2,346,328</u>
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### **Net Assets**

Invested in capital assets, net of related debt	2,364,464
Unrestricted	<u>2,127,325</u>

Total net assets	<u>4,491,789</u>
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Total liabilities and net assets	\$ <u>6,838,117</u>
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**Ringgold County Hospital**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**Year Ended June 30, 2004**

**Operating Revenues**

Net patient service revenue, net of provision for uncollectible accounts of \$288,756	\$ 8,169,143
Other	<u>99,927</u>
Total operating revenues	<u>8,269,070</u>

**Operating Expenses**

Nursing services	1,234,935
Other professional services	5,162,852
General services	643,526
Administrative and fiscal services	1,824,499
Depreciation	<u>323,865</u>
Total operating expenses	<u>9,189,677</u>

**Operating Loss** (920,607)

**Nonoperating Revenues (Expenses)**

County taxes	662,835
Investment income	21,550
Interest expense	(49,107)
Noncapital gifts	3,849
Rental income	<u>27,986</u>
Total nonoperating revenues (expenses)	<u>667,113</u>

**Decrease in Net Assets** (253,494)

**Net Assets, Beginning of Year** 4,745,283

**Net Assets, End of Year** \$ 4,491,789

# Ringgold County Hospital

## Statement of Cash Flows Year Ended June 30, 2004

### Operating Activities

Receipts from and on behalf of patients	\$ 8,024,414
Payments to suppliers and contractors	(4,537,797)
Payments to employees	(4,238,240)
Other receipts (payments), net	<u>95,172</u>

Net cash used in operating activities (656,451)

### Noncapital Financing Activities

County taxes supporting operations	668,919
Noncapital gifts	<u>1,704</u>

Net cash provided by noncapital financing activities 670,623

### Capital and Related Financing Activities

Rental income	27,986
Principal paid on long-term debt	(127,373)
Interest paid on long-term debt	(49,107)
Purchase of capital assets	<u>(355,320)</u>

Net cash used in capital and related financing activities (503,814)

### Investing Activities

Interest on investments	14,238
Purchase of investments	(2,100,000)
Proceeds from maturity of investments	<u>2,200,000</u>

Net cash provided by investing activities 114,238

**Decrease in Cash** (375,404)

**Cash, Beginning of Year** 762,582

**Cash, End of Year** \$ 387,178

# Ringgold County Hospital

## Statement of Cash Flows

Year Ended June 30, 2004

### Reconciliation of Net Operating Loss to Net Cash Used in Operating Activities

Operating loss	\$ (920,607)
Depreciation	323,865
Gain on disposition of property and equipment	(4,756)
Changes in operating assets and liabilities	
Patient accounts receivable, net	(102,671)
Supplies and prepaid expenses	1,058
Estimated amounts due from third-party payers	(42,057)
Accounts payable and accrued expenses	<u>88,717</u>
Net cash used in operating activities	\$ <u>(656,451)</u>

# **Ringgold County Hospital**

## **Notes to Financial Statements**

**June 30, 2004**

### **Note 1: Nature of Operations and Summary of Significant Accounting Policies**

#### ***Nature of Operations and Reporting Entity***

Ringgold County Hospital (Hospital) is an acute care hospital located in Mount Ayr, Iowa. The Hospital is a county public hospital organized under Chapter 347 of the Code of Iowa. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Ringgold County area.

#### ***Basis of Accounting and Presentation***

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants and county tax revenues) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific, such as county taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

#### ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### ***County Taxes***

Annually, during March, the Hospital's Board of Trustees adopts a budget for the next fiscal year and approves a tax levy based on the taxable valuation of all taxable property of Ringgold County on January 1 of the prior calendar year. After completion of a public hearing on the tax levy, taxes are received in installments the following September and March. Taxes become delinquent after March 31 of the following year. Revenue from county taxes is recognized in the year for which the taxes are levied.

# **Ringgold County Hospital**

## **Notes to Financial Statements**

### **June 30, 2004**

During the year ended June 30, 2004, the Hospital received approximately 7% of its financial support from county taxes. Such funds were used exclusively to support operations.

#### ***Risk Management***

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Hospital is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and any claims incurred but not yet reported.

#### ***Investments and Investment Income***

Investments in nonnegotiable certificates of deposit are carried at amortized cost. Investment income includes interest income.

#### ***Patient Accounts Receivable***

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

#### ***Supplies***

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

#### ***Capital Assets***

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements	15 – 20 years
Buildings and leasehold improvements	20 – 40 years
Equipment	4 – 10 years

# **Ringgold County Hospital**

## **Notes to Financial Statements**

**June 30, 2004**

### ***Compensated Absences***

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits are earned. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

### ***Net Assets***

Net assets of the Hospital are classified in two components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt.

### ***Net Patient Service Revenue***

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

### ***Charity Care***

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

### ***Income Taxes***

As a county public hospital, the Hospital is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 510(c)(3) of the code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.



# Ringgold County Hospital

## Notes to Financial Statements

June 30, 2004

### Note 2: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

*Medicare.* Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient skilled nursing services are paid at prospectively determined per diem rates that are based on the patients' acuity. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

*Medicaid.* Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates. These rates vary according to a patient classification system based on clinical, diagnostic and other factors.

Approximately 62% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the year ended June 30, 2004. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

### Note 3: Deposits, Investments and Investment Income

At June 30, 2004, the Hospital had a bank balance of \$1,402,375 and a carrying balance of \$1,287,178, all in accounts covered by federal depository insurance and the State of Iowa Sinking Fund in accordance with Chapter 12C of the Code of Iowa. The Code of Iowa provides for additional assessments against depositories to ensure there will be no loss of public funds.

The carrying value of deposits are included in the following balance sheet captions:

Cash	\$ 387,178
Noncurrent investments	<u>900,000</u>
	<u>\$ 1,287,178</u>

# Ringgold County Hospital

## Notes to Financial Statements

June 30, 2004

### Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at June 30, 2004, consisted of:

Medicare	\$ 571,023
Medicaid	72,061
Other third-party payers	603,037
Patients	<u>603,732</u>
	1,849,853
Less allowance for uncollectible accounts	<u>423,429</u>
	<u>\$ 1,426,424</u>

### Note 5: Capital Assets

Capital assets activity for the year ended June 30, 2004, was:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Land	\$ 127,004	\$ —	\$ —	\$ —	\$ 127,004
Land improvements	197,734	—	—	—	197,734
Buildings and improvements	2,693,373	22,704	—	—	2,716,077
Fixed equipment	1,531,799	40,193	7,889	60,810	1,624,913
Major moveable equipment	1,926,803	233,688	216,702	—	1,943,789
Construction in progress	<u>2,075</u>	<u>58,735</u>	<u>—</u>	<u>(60,810)</u>	<u>—</u>
	<u>6,478,788</u>	<u>355,320</u>	<u>224,591</u>	<u>0</u>	<u>6,609,517</u>
Less accumulated depreciation					
Land improvements	60,209	12,987	—	—	73,196
Buildings and leasehold improvements	1,088,049	105,162	—	—	1,193,211
Fixed equipment	653,001	79,980	6,469	—	726,512
Major moveable equipment	<u>1,456,218</u>	<u>125,736</u>	<u>222,878</u>	<u>—</u>	<u>1,359,076</u>
	<u>3,257,477</u>	<u>323,865</u>	<u>229,347</u>	<u>—</u>	<u>3,351,995</u>
Capital Assets, Net	<u>\$ 3,221,311</u>	<u>\$ 31,455</u>	<u>\$ (4,756)</u>	<u>\$ 0</u>	<u>\$ 3,257,522</u>

# Ringgold County Hospital

## Notes to Financial Statements

June 30, 2004

### Note 6: Medical Malpractice Claims

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

### Note 7: Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an annual aggregate stop loss amount. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term.

Activity in the Hospital's accrued employee health claims liability during 2004 is summarized as follows:

Balance, beginning of year	\$	40,000
Current year claims incurred and changes in estimates for claims incurred in prior years		244,885
Claims and expenses paid		<u>(244,885)</u>
Balance, end of year	\$	<u>40,000</u>

### Note 8: Long-term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the year ended June 30, 2004:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue capital loan notes	\$ 617,774	\$ —	\$ 76,888	\$ 540,886	\$ 89,799
Note payable	93,750	—	15,000	78,750	15,000
Lease purchase agreements	<u>308,907</u>	<u>—</u>	<u>35,485</u>	<u>273,422</u>	<u>37,801</u>
Total long-term debt	<u>\$ 1,020,431</u>	<u>\$ 0</u>	<u>\$ 127,373</u>	<u>\$ 893,058</u>	<u>\$ 142,600</u>

# Ringgold County Hospital

## Notes to Financial Statements

June 30, 2004

### Revenue Capital Loan Notes

The revenue capital loan notes consist of Hospital Revenue Capital Loan Notes, Series 2000 (Notes), in the original amount of \$700,000 dated August 1, 1999, which bear interest at 5.25%. The Notes are payable in monthly installments of \$4,736 through August 2009. The Hospital is required to make monthly deposits to the debt service fund. The Notes are secured by the net revenues of the Hospital and a \$100,000 certificate of deposit.

The debt service requirements as of June 30, 2004, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2005	\$ 113,669	\$ 89,799	\$ 23,870
2006	113,669	92,179	21,490
2007	113,669	97,137	16,532
2008	113,669	102,333	11,336
2009	113,669	107,865	5,804
2010 – 2014	<u>52,320</u>	<u>51,573</u>	<u>747</u>
	<u>\$ 620,665</u>	<u>\$ 540,886</u>	<u>\$ 79,779</u>

### Note Payable

The note payable is due October 2009, with principal payable in quarterly installments of \$3,750. The note is noninterest bearing. The note is secured by a loan guaranty from Mercy Hospital Medical Center. The debt service requirements as of June 30, 2004, are as follows:

Year Ending June 30,	Total to be Paid	Principal
2005	\$ 15,000	\$ 15,000
2006	15,000	15,000
2007	15,000	15,000
2008	15,000	15,000
2009	15,000	15,000
2010 – 2014	<u>3,750</u>	<u>3,750</u>
	<u>\$ 78,750</u>	<u>\$ 78,750</u>

# Ringgold County Hospital

## Notes to Financial Statements

### June 30, 2004

#### ***Lease Purchase Obligations***

The Hospital is obligated under lease purchase agreements for equipment due in monthly installments, including interest of 5.25% to 6.85%, through August 2010. The agreements are secured by equipment. The debt service requirements at June 30, 2004, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2005	\$ 54,338	\$ 37,801	\$ 16,537
2006	54,338	40,272	14,066
2007	54,338	42,905	11,433
2008	54,338	45,714	8,624
2009	54,338	48,709	5,629
2010 – 2014	<u>61,098</u>	<u>58,021</u>	<u>3,077</u>
	\$ <u>332,788</u>	\$ <u>273,422</u>	\$ <u>59,366</u>

#### **Note 9: Operating Leases**

The Hospital has a noncancelable operating lease for a computerized tomography (CT) scanner that expires in 2007. The lease requires contingent rental payments based on the number of CT scans performed each month with a maximum monthly rental of \$10,140.

Future minimum lease payments at June 30, 2004, were:

2005	\$ 121,680
2006	121,680
2007	<u>81,120</u>
Future minimum lease payments	\$ <u>324,480</u>

Rental expense for all operating leases consisted of:

Minimum rentals	\$ 61,876
Contingent rentals	<u>118,521</u>
	\$ <u>180,397</u>

# **Ringgold County Hospital**

## **Notes to Financial Statements**

**June 30, 2004**

### **Note 10: Pension Plan**

#### ***Plan Description***

The Hospital contributes to the Iowa Public Retirement System (IPERS), which is a cost-sharing, multiple-employer defined benefit pension plan administered by the state of Iowa. Pension expense is recorded for the amount the Hospital is contractually required to contribute for the year. IPERS provides retirement and death benefits, which are established by state statute, to plan members and their beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

#### ***Funding Policy***

Plan members are required to contribute 3.70% of their annual covered salary, and the Hospital is required to contribute 5.75% of annual covered payroll except for law enforcement employees, in which case the percentages are 6.76% and 10.14%, respectively; and police employees, in which case the percentages are 5.95% and 8.92%, respectively. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002, were \$218,959, \$203,858 and \$189,604, respectively, which equaled the required contributions for each year.

### **Note 11: Related Party Transactions**

Because of the existence of common management, Ringgold County Hospital and Mercy Hospital Medical Center (Medical Center) are related parties. The Hospital contracts with the Medical Center to provide management services, including the provision of an administrator for daily operating decisions. Other activities involving the Medical Center include the purchase of social service, dietician and human resources services.

Payments to the Medical Center totaled \$200,491 for the year ended June 30, 2004.

### **Note 12: Budget and Budgetary Accounting**

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on a cash basis following required public notice and hearings for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

# Ringgold County Hospital

## Notes to Financial Statements

### June 30, 2004

The following is a reconciliation between reported amounts and cash basis presentation as well as a comparison to budget for the year ended June 30, 2004:

	<b>Accrual Basis</b>	<b>Accrual Adjustments</b>	<b>Cash Basis</b>	<b>Budget</b>	<b>Variance Favorable (Unfavorable)</b>
Amount to be raised by taxation	\$ 662,835	\$ —	\$ 662,835	\$ 635,584	\$ 27,251
Other revenues/receipts	<u>8,322,455</u>	<u>(367,584)</u>	<u>7,954,871</u>	<u>9,032,490</u>	<u>(1,077,619)</u>
	8,985,290	(367,584)	8,617,706	9,668,074	(1,050,368)
Expenses/disbursements	<u>9,238,784</u>	<u>(89,667)</u>	<u>(9,328,451)</u>	<u>(9,352,054)</u>	<u>23,603</u>
	(253,494)	(457,251)	(710,745)	316,020	(1,026,765)
Balance, beginning of year	<u>4,745,283</u>	<u>(958,719)</u>	<u>3,786,564</u>	<u>2,679,117</u>	<u>1,107,447</u>
Balance, end of year	<u>\$ 4,491,789</u>	<u>\$ (1,415,970)</u>	<u>\$ 3,075,819</u>	<u>\$ 2,995,137</u>	<u>\$ 80,682</u>

#### Note 13: Change in Accounting Principle

During 2004, the Hospital retroactively changed its method of financial statement presentation and disclosure by adopting the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended. The changes in financial statement presentation provide a comprehensive look at the total governmental entity and include a narrative Management's Discussion and Analysis of the Hospital's financial activities. The retroactive application of the new method had no effect on net assets at the beginning of 2004.

## **Supplementary Information**



**Ringgold County Hospital**  
**Patient Accounts Receivable and**  
**Allowance for Uncollectible Accounts**  
**June 30, 2004**

***Patient Accounts Receivable***

	<u>Amount</u>	<u>Percent</u>
<b>Age of Accounts</b>		
0 - 30 days	\$ 1,121,062	46.2%
31 - 60 days	322,722	13.3
61 - 90 days	181,011	7.5
91 - 120 days	107,009	4.4
Over 120 days	<u>693,049</u>	<u>28.6</u>
	<u>2,424,853</u>	<u>100.0%</u>
 Less		
Allowance for uncollectible accounts	423,429	
 Allowance for contractual adjustments	<u>575,000</u>	
	<u>998,429</u>	
	<u>\$ 1,426,424</u>	

***Allowance for Uncollectible Accounts***

Balance, beginning of year	\$ 330,000
Provision for uncollectible accounts	288,756
Accounts written off	<u>(195,327)</u>
Balance, end of year	<u>\$ 423,429</u>

**Ringgold County Hospital**  
**Supplies and Prepaid Expenses**  
**June 30, 2004**

**Supplies**

Medical supplies	\$ 58,581
Pharmacy	<u>79,518</u>
	<u>\$ 138,099</u>

**Prepaid Expenses**

Insurance	\$ 10,843
Other	<u>26,093</u>
	<u>\$ 36,936</u>

# Ringgold County Hospital

## Other Revenue

Year Ended June 30, 2004

Grant revenue	\$ 18,706
Meals sold to employees and guests	22,769
Contract laundry services	3,072
Gain on disposition of capital assets	4,755
Purchase discounts	22,924
Other	<u>27,701</u>
	\$ <u><u>99,927</u></u>

# Ringgold County Hospital

## Net Patient Service Revenue

Year Ended June 30, 2004

	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>
<b>Daily Patient Services</b>			
Medical and surgical	\$ 394,888	\$ —	\$ 394,888
Long-term care	<u>111,008</u>	<u>—</u>	<u>111,008</u>
	<u>505,896</u>	<u>—</u>	<u>505,896</u>
<b>Other Nursing Services</b>			
Operating room	114,495	611,826	726,321
Recovery room	12,383	110,739	123,122
Central services and supply	158,824	303,266	462,090
Intravenous therapy	37,439	159,910	197,349
Emergency services	<u>33,717</u>	<u>343,353</u>	<u>377,070</u>
	<u>356,858</u>	<u>1,529,094</u>	<u>1,885,952</u>
<b>Other Professional Services</b>			
Laboratory	354,874	1,517,994	1,872,868
Transfusion service	18,620	14,713	33,333
Electrocardiology	27,342	289,883	317,225
Radiology	76,294	499,426	575,720
Ultrasound	173,677	1,139,976	1,313,653
Pharmacy	681,300	534,794	1,216,094
Respiratory therapy	219,133	184,587	403,720
Physical therapy	62,669	253,369	316,038
Anesthesiology	10,551	43,057	53,608
Ambulance service	2,794	308,879	311,673
Dialysis	—	662,411	662,411
Emergency room physicians	—	186,185	186,185
Clinics	<u>—</u>	<u>2,853,698</u>	<u>2,853,698</u>
	<u>1,627,254</u>	<u>8,488,972</u>	<u>10,116,226</u>
<b>Gross Patient Service Revenue</b>	<u>\$ 2,490,008</u>	<u>\$ 10,018,066</u>	<u>12,508,074</u>
<b>Less Allowances and Provision for Uncollectible Accounts</b>			
Medicare and other contractual allowances			3,824,444
Medicaid contractual allowances			225,731
Provision for uncollectible accounts			<u>288,756</u>
			<u>4,338,931</u>
<b>Net Patient Service Revenue</b>			<u>\$ 8,169,143</u>

# Ringgold County Hospital

## Expenses

Year Ended June 30, 2004

	Salaries	Supplies and Expense	Total
<b>Nursing Services</b>			
Nursing administration	\$ 108,622	\$ 12,270	\$ 120,892
Medical and surgical	597,040	81,732	678,772
Operating room	148,046	171,846	319,892
Recovery room	15,283	789	16,072
Central services and supply	15,855	42,375	58,230
Emergency services	<u>22,327</u>	<u>18,750</u>	<u>41,077</u>
	<u>907,173</u>	<u>327,762</u>	<u>1,234,935</u>
<b>Other Professional Services</b>			
Laboratory	201,087	303,151	504,238
Transfusion service	—	27,436	27,436
Electrocardiology	14,602	13,696	28,298
Radiology	111,969	394,576	506,545
Ultrasound	—	358,265	358,265
Pharmacy	99,445	314,885	414,330
Respiratory therapy	90,498	73,956	164,454
Physical therapy	136,226	55,708	191,934
Medical records	63,685	82,351	146,036
Ambulance service	141,498	33,102	174,600
Dialysis	170,061	215,817	385,878
Emergency room physicians	137,730	125,867	263,597
Clinics	<u>1,650,042</u>	<u>347,199</u>	<u>1,997,241</u>
	<u>2,816,843</u>	<u>2,346,009</u>	<u>5,162,852</u>
<b>General Services</b>			
Dietary	121,312	63,811	185,123
Plant operation and maintenance	68,400	260,149	328,549
Housekeeping	84,806	13,671	98,477
Laundry and linen	<u>21,866</u>	<u>9,511</u>	<u>31,377</u>
	<u>296,384</u>	<u>347,142</u>	<u>643,526</u>

**Ringgold County Hospital**  
**Expenses**  
**Year Ended June 30, 2004**

	<u>Salaries</u>	<u>Supplies and Expense</u>	<u>Total</u>
<b>Administrative and Fiscal Services</b>			
Administrative	\$ 293,248	\$ 739,261	\$ 1,032,509
Employee benefits	<u>—</u>	<u>791,990</u>	<u>791,990</u>
	<u>293,248</u>	<u>1,531,251</u>	<u>1,824,499</u>
<b>Depreciation</b>	<u>—</u>	<u>323,865</u>	<u>323,865</u>
	\$ <u>4,313,648</u>	\$ <u>4,876,029</u>	\$ <u>9,189,677</u>

# **Ringgold County Hospital**

## **Organizational Data**

**June 30, 2004**

### **Type of Organization**

County Public Hospital organized under Chapter 347 of Code of Iowa, not subject to taxes on income or property.

### **Board of Trustees, Executive Committee**

Vicki Sickels, Chairman, Mount Ayr, Iowa; term expires 2006

Mike Kemery, Vice Chairman, Clearfield, Iowa; term expires 2004

Cindy Allen, Secretary, Mount Ayr, Iowa; term expires 2006

### **Board of Trustees, Members**

Ken Smith, Blockton, Iowa; term expires 2004

Randy Gregg, Mount Ayr, Iowa; term expires 2008

Bill Armstrong, Mount Ayr, Iowa; term expires 2008

Patty Parrish, Diagonal, Iowa; term expires 2004

### **Administrator and Chief Executive Officer**

Gordon W. Winkler, Mount Ayr, Iowa

### **Director of Finance**

Teresa Roberts, Mount Ayr, Iowa



Southern Missouri Practice  
Springfield  
Joplin  
Branson  
Pittsburg, Kansas

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bkd.com

## **Independent Accountants' Report on Compliance and Internal Control Over Financial Reporting Based on the Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards* and on Compliance with Certain Provisions of the Code of Iowa**

Board of Trustees  
Ringgold County Hospital  
Mount Ayr, Iowa

We have audited the financial statements of Ringgold County Hospital as of and for the year ended June 30, 2004, and have issued our report thereon dated September 2, 2004, which contained an explanatory paragraph regarding a change in accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### ***Compliance***

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

### ***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Hospital's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 04-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.



### ***Compliance with Certain Provisions of Iowa Law***

The following comments about the Hospital's compliance with certain provisions of Iowa law for the year ended June 30, 2004, are based exclusively on knowledge obtained from procedures performed during our independent audit of the financial statements of the Hospital for the year ended June 30, 2004. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily examined. In addition, it should be noted that our audit was not directed primarily toward obtaining knowledge of compliance with the following items. Our procedures do not provide a legal determination on the Hospital's compliance with these requirements.

### ***Official Depository Banks***

A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

### ***Certified Budget***

Hospital expenditures during the year ended June 30, 2004, did not exceed budgeted amounts.

### ***Questionable Expenditure***

An expenditure of \$110 for Chamber of Commerce dues was noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979, since the public benefits to be derived have not been clearly documented. This expenditure was coded to the Administration Department. According to the opinion, it is possible for certain expenses to meet the test of serving a public purpose under certain circumstances, although such expenses will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin. The Board of Trustees should consider and document the public purpose and propriety of this transaction or, if appropriate, request reimbursement.

### ***Entertainment Expense***

We noted no expenditures for parties, banquets or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

### ***Travel Expense***

No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

### ***Business Transactions***

No transactions between the Hospital and Hospital officials or employees were noted.

### ***Board Minutes***

No transactions were found that we believe should have been approved in the Board minutes but were not.

### ***Deposits and Investments***

We noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Hospital's investment policy.

### ***Sale of Assets***

No notice of hearing was posted or public hearing was held regarding the sale of personal property by the Hospital. The Hospital should post notice of and conduct a public hearing regarding a sale of personal property when required by Iowa law.

### ***Publication of Bills Allowed and Salaries***

Chapter 347.13(15) of the Code of Iowa states "There shall be published quarterly in each of the official newspapers of the county as selected by the Board of Supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspapers the schedule of salaries paid by job classification and category..." The Hospital did publish annually the schedule of salaries paid by category and published quarterly the schedule of bills allowed.

### ***Economic Development***

No transactions involving expenditure of Hospital money for economic development were noted.

\* \* \*

This report is intended solely for the information of the Board of Trustees, management and the state of Iowa and is not intended to be and should not be used by anyone other than these specified parties.

September 2, 2004

**Ringgold County Hospital**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2004**

**Findings Required to be Reported by *Government Auditing Standards***

<b>Reference Number</b>	<b>Finding</b>	<b>Questioned Costs</b>
04-1	In the Hospital's payroll; purchases, accounts payable and cash disbursements; and revenues, accounts receivable and cash receipts cycles certain individuals perform or have the ability to perform incompatible access, recording and monitoring functions. Management should periodically reevaluate the expected costs versus benefits of segregating incompatible duties.	None

**Ringgold County Hospital**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2004**

<b>Reference Number</b>	<b>Finding</b>	<b>Status</b>
03-1	In the purchases, cash disbursements and accounts payable cycle, certain individuals have access to cash and perform or have the ability to perform general ledger recording functions and reconciliations of related accounts. Management should periodically reevaluate the expected costs versus benefits of segregating incompatible duties.	Resolved; during the year ended June 30, 2004, management reconsidered the existing assignment of duties and determined that the costs of further segregation exceeded expected benefits.
03-2	In the revenues, cash receipts and accounts receivable cycle, certain individuals have access to cash and perform or have the ability to perform general ledger recording functions and reconciliations of related accounts. Management should periodically reevaluate the expected costs versus benefits of segregating incompatible duties.	Resolved; during the year ended June 30, 2004, management reconsidered the existing assignment of duties and determined that the costs of further segregation exceeded expected benefits.
03-3	In the payroll cycle, certain individuals have the ability to initiate payroll disbursements and perform general ledger recording functions and reconciliations of related accounts. Management should periodically reevaluate the expected costs versus benefits of segregating incompatible duties.	Resolved; during the year ended June 30, 2004, management reconsidered the existing assignment of duties and determined that the costs of further segregation exceeded expected benefits.